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SIPDIS

DEPARTMENT FOR AF/W (JHUNTER)

E.O. 12958: N/A

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SUBJECT: SIERRA LEONE STOCK EXCHANGE LAUNCHED

¶1. Summary: The Sierra Leone Stock Exchange was launched by President Koroma on July 17, 2009 amidst great fanfare. The decision to form a stock exchange in Sierra Leone was made in 1999, with a technical committee formed in 2001. However, due to the lack of expertise and strong financial institutions, plans did not progress. The stock exchange was finally created through the Other Financial Services (Amended) Act 2007, and was registered as a Company Limited by Guarantee. Though starting small, the creation of the stock exchange represents a significant step forward for the country's financial sector. End Summary.

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STOCK EXCHANGE OPERATIONS  
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¶2. The Sierra Leone Stock Exchange replaces the interim stock trading facility, which was created in 2007, and will serve as a regulated market and help to create liquidity in shares. It will also generate greater transparency by regularly publishing vital information about companies listed on the official list of the exchange. The stock exchange will have responsibility for both the primary and secondary markets, and ensure that all partisans conduct their business according to the rules and regulations. The Director General of the exchange has the power to investigate and, when necessary, discipline anyone who breaks those rules. There is a fifteen percent withholding tax which is also the final tax on dividend income for all investors, both resident and non-resident. The stock exchange also levies a three percent commission on every transaction.

¶3. The Securities Act is under review, and the stock exchange will continue to be guided by the interim regulations created in the 2007 Other Financial Services (Amended) Act until it is enacted. The rules for listing a company on the exchange include being registered as a public limited company in Sierra Leone, have capital greater than Le 100,000,000 (USD 33,334), and an operational history greater than three years. The dealing members of the interim stock trading facility, First Discount House and Capital Discount House, are continuing as the sole dealers for the formal exchange.

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PROSPECTS FOR THE STOCK EXCHANGE  
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¶4. The Sierra Leone Stock Exchange has received significant support from the Commonwealth, the Central Bank of Sierra Leone, the Nigerian-based West African Institute of Financial and Economic Management (WIFEM), and the Nigeria Stock Exchange. At present only one company, the Sierra Leone Rokel Commercial Bank (previously Barclays Bank), is listed. Two brokerage companies are operating with three traders apiece. Though a modest start, speakers at the opening noted that Tanzania and Malawi began with only a few companies listed in their Exchange, but were able to develop tremendously in a short time. Nigeria started with less than 7, but now has approximately 315 listed in the Nigeria Stock Exchange. It

was also stated that all countries, including China, saw a tremendous boost in their economies five years after establishing a Stock Exchange.

15. Three to four more companies are expected to be listed within the calendar year. Twenty more companies, primarily government parastatals that are being privatized, are also planned for inclusion over the next several years. Foreign companies can be listed as well, but none have shown a firm interest yet.

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CHALLENGES AHEAD  
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16. The Sierra Leone Stock Exchange is presently operating from the ground floor of the Bank of Sierra Leone, which brings their autonomy into question. An independent regulatory body needs to be established to allay the fears of investors. The government also needs to promulgate a law that encompasses the legal framework of the Exchange's operations.

17. The exchange lacks financial capital, and currently operates with a one year loan from the Central Bank. Income-generation is commensurate to the small volume being traded, resulting in a small staff of seven: of the seven, only three (Director General, accountant, and assistant accountant) hold substantive positions. The staff has frequently voiced concerns about their futures when the Central Bank loan expires. Further financial support will likely be required to keep the exchange afloat until more companies are listed.

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COMMENT  
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18. The official launch of the stock exchange comes after years of stalled progress. The stock exchange was "launched" in 2007 by the SLPP government, but despite promises to quickly replace the interim trading facility within a few months, it languished. The formalization of the exchange is a promising step forward, though it will probably be several years before it can operate without external support. End Comment.  
PERRY